



Advancing
Government
Accountability

2208 Mount Vernon Ave
Alexandria, VA 22301

(703) 684-6931
(703) 548-9367 (fax)



September 30, 2009

Mr. David R. Bean
Director of Research and Technical Activities
No. 30
Governmental Accounting Standards Board (GASB)
401 Merritt 7, P. O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB or the board) appreciates the opportunity to provide comments to the Governmental Accounting Standards Board (GASB) on its exposure draft of a proposed statement on *Accounting and Financial Reporting for Service Concession Arrangements*. The FMSB, comprising 21 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

We agree that there is a need to provide separate guidance and we agree with many of the concepts and methodologies presented in the exposure draft. We would like to make one general point about the control criteria. The exposure draft lists three conditions in paragraph 7a. We wonder if the third condition makes the criteria overly restrictive since all three must be met. Should the GASB reconsider whether control of price ranges or rates should be a necessary condition? We do have the following responses to the two questions posed.

Issue 1

This Exposure Draft proposes financial reporting requirements for recognition of an up-front payment or installment payments from an operator to a transferor associated with an SCA in which the transferor *does not* meet all the control criteria set forth in paragraph 7. Paragraphs 11 and 12 would require that such up-front payments or present value of installment payments be recognized currently as revenue or a gain, rather than deferred and amortized over the term of the SCA, as would be required if the transferor *does* meet the control criteria in paragraph 7. Paragraphs 53 and 54 provide the Board's basis for that conclusion. The Alternative View, discussed in paragraphs 63 and 64, would require that the up-front payment or present value of installment payments initially be deferred and amortized as revenue in a systematic and rational method over the term of the agreement.

Question: How should up-front or installment payments be reported when a transferor does not control the facilities subject to an SCA? Please state why you support this position.

FMSB Response: The FMSB agrees with the alternative view. When a government foregoes the right to their revenue-generating asset for an extended period of time by

accepting a lump sum payment, the government is essentially giving up incremental revenues that otherwise would have been available each year. Recording the whole effect up-front would not be representative of the actual transaction. As the government chooses to forego revenues related to the asset, the financial picture would be more representative of actual circumstances if any gain or loss from the arrangement is deferred. The FMSB agrees with the arguments presented in paragraph 64. Also, comparability from year to year will be enhanced as well for this decision that affects many years.

Issue 2

This Exposure Draft proposes financial reporting requirements for recognition of a residual interest by a transferor in a facility subject to an SCA for which the transferor does not meet all the control criteria set forth in paragraph 7. Paragraph 11 provides that if the facilities are purchased, constructed, or materially improved upon by the operator, the transferor would recognize its entitlement to the residual interest as an asset measured at fair value at the commencement of the SCA and a deferred inflow of resources. The deferral would be recognized as revenue when the facility reverts to the transferor at the end of the arrangement. Paragraph 56 provides the Board's basis for that conclusion. The Alternative View, discussed in paragraph 65, provides that the transferor would recognize an asset and a corresponding deferred inflow of resources at the commencement of the SCA. The deferral would be amortized and revenue would be recognized over the term of the arrangement.

Question: How should a transferor's residual interest in a facility subject to an SCA be reported when the transferor does not control the facility? Please state why you support this position.

FMSB Response: The FMSB agrees with the majority view. The transferor has not increased its net position until the date of reversion, and revenue should be recognized on that reversion date.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. No member objected to its issuance. If you have questions concerning the letter, please contact Anna D. Gowans Miller, CPA, AGA's director of research and staff liaison for the FMSB, at amiller@agacgfm.org or 703.684.6931 ext. 313.

Sincerely,



Robert L. Childree, Chair
AGA Financial Management Standards Board

cc: William A. Morehead, Ph.D., CPA, CGFM
AGA National President

**Association of Government Accountants
Financial Management Standards Board**

July 2009 – June 2010

Robert L. Childree, Chair
Katherine J. Anderson
Frank D. Banda
Eric S. Berman
Irwin T. David
Michael H. Granof
Jeffrey W. Green
David C. Horn
David R. Hancox
Albert A. Hrabak
Drummond Kahn
Simcha Kuritzky
Valerie A. Lindsey
Jeffrey A. Long
Edward J. Mazur
Craig M. Murray
Suesan R. Patton
Leslie I. Tanaka
Clarence L. Taylor, Jr.
Roger Von Elm
Stephen B. Watson

Relmond P. Van Daniker, Executive Director, AGA (Ex-Officio Member)
Anna D. Gowans Miller, Technical Manager, AGA, Staff Liaison